

PDD Holdings (PDD US)

International expansion drove a strong beat for 3Q results

PDD Holdings (PDD) announced (28 Nov) 3Q23 results: revenue was up 94% YoY to RMB68.8bn, 26% ahead of both our/Bloomberg consensus estimates, which we mainly attribute to stronger-than-expected international expansion, and incremental commission revenue generation from the “Ten billion subsidy” section. Non-GAAP net income increased by 37% YoY to RMB17.0bn, 30% ahead of consensus, which we attribute to a likely narrower-than-expected loss generated from Temu business, aided by a stronger-than-expected scale effect, and likely better-than-expected profit generation from Duoduo Grocery, aided by well-established consumer mindshare. The results echoed our view that PDD’s overseas business is ramping up quickly, and is on track to support PDD’s long-term revenue and earnings growth. To factor in the strong 3Q results, and better-than-expected development of Temu business, we lift our DCF-based TP by 8% to USD142.6 (was US\$131.8). Maintain BUY.

■ **3Q23 results reflected strong international expansion trend.** Online marketing services and others revenue rose by 39% YoY to RMB39.7bn in 3Q23 (58% of total revenue), 2% higher than consensus estimates. Transaction services revenue for 3Q23 grew by 315% YoY to RMB29.2bn, 75% ahead of consensus, which in our view can be attributed to stronger-than-expected revenue generation from Temu business, and stronger-than-expected commission rate expansion in the “Ten billion subsidy” section.

■ **A more disciplined-than-expected sales and marketing spend aided by quality growth strategy drove a beat on OPM.** In our view, PDD is driving for quality growth for both its domestic business and international business. However, as for international expansion, the company is lowering its short-term take rate by providing more user subsidies, rather than immoderately spending on sales and marketing, which drove a lower-than-expected GPM but a beat on OPM. PDD’s GPM declined to 61.0% in 3Q23 (3Q22: 79.1%). Total non-GAAP operating expense ratio was 34.7% for 3Q23, better than our estimate of 39.9%, mainly due to an optimized S&M spend. Non-GAAP S&M expenses were RMB21.3bn in 3Q23, up 58.4% YoY, equivalent to 30.9% of total revenue (3Q22: 37.9%; our estimate: 35.0%). Although international expansion sustained at a rapid pace, PDD’s overall non-GAAP OPM was 26.3% in 3Q23 (3Q22: 34.6%), better than our estimate of 24.9%.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	93,950	130,558	234,881	292,687	354,718
YoY growth (%)	57.9	39.0	79.9	24.6	21.2
Net profit (RMB mn)	7,768.7	31,538.1	61,082.0	74,942.1	94,321.9
Adjusted net profit (RMB mn)	13,829.5	39,529.7	57,165.6	75,241.4	97,956.2
EPS (Adjusted) (RMB)	9.56	27.45	39.31	51.74	67.36
Consensus EPS (RMB)	9.56	27.45	35.60	43.11	56.51
P/E (x)	123.0	15.4	21.2	17.3	13.7
P/B (x)	12.7	4.1	7.3	5.1	3.7
ROE (%)	11.5	32.7	41.4	34.9	31.3

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$142.60

(Previous TP) US\$131.80

Up/Downside 21.6%

Current Price US\$117.20

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Stock Data

Mkt Cap (US\$ mn)	200,204.9
Avg 3 mths t/o (US\$ mn)	372.0
52w High/Low (US\$)	139.00/60.02
Total Issued Shares (mn)	1440.3

Source: FactSet

Shareholding Structure

Entities affiliated with Zheng Huang	27.9%
Entities affiliated with Tencent	15.5%

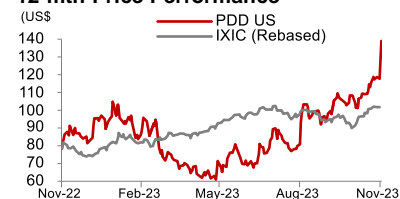
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	28.4%	14.0%
3-mth	49.1%	46.0%
6-mth	94.6%	77.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: PDD: quarterly financial results

(RMBmn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	3Q23 CMBI estimates	Diff (%)	3Q23 Consensus	Diff (%)
Online marketing services and others	18,202	25,223	28,482	31,023	27,244	37,933	39,688	38,071	4.2%	38,851	2.2%
YoY growth (%)	29.0%	39.5%	58.7%	38.3%	49.7%	50.4%	39.3%	33.7%			
Transaction services fees	5,591	6,216	7,022	8,797	10,393	14,348	29,153	16,509	76.6%	16,622	75.4%
YoY growth (%)	90.7%	106.7%	102.0%	86.2%	85.9%	130.8%	315.1%	135.1%			
Total revenue	23,794	31,440	35,504	39,820	37,637	52,281	68,840	54,580	26.1%	54,872	25.5%
YoY growth (%)	7.3%	36.4%	65.1%	46.2%	58.2%	66.3%	93.9%	53.7%			
Gross profit	16,634	23,478	28,090	30,893	26,512	33,591	42,010	35,326	18.9%	35,240	19.2%
Operating profit	2,154	8,697	10,437	9,114	6,929	12,719	16,656	11,340	46.9%	11,295	47.5%
Non-GAAP net profit	4,200	10,776	12,447	12,106	10,126	15,269	17,027	13,043	30.5%	13,061	30.4%
GPM (%)	69.9%	74.7%	79.1%	77.6%	70.4%	64.3%	61.0%	64.7%	-3.7 ppt	64.2%	-3.2 ppt
OPM (%)	9.1%	27.7%	29.4%	22.9%	18.4%	24.3%	24.2%	20.8%	3.4 ppt	20.6%	3.6 ppt
Non-GAAP NPM (%)	17.7%	34.3%	35.1%	30.4%	26.9%	29.2%	24.7%	23.9%	0.8 ppt	23.8%	0.9 ppt

Source: Company data, CMBIGM estimates

Figure 2: PDD: forecast revision

RMB bn	Current			Previous			Change (%)		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Revenue	238.2	296.5	358.9	208.0	265.9	325.1	14.5%	11.5%	10.4%
Gross Profit	149.4	185.4	225.1	136.7	174.8	213.3	9.3%	6.1%	5.5%
Operating Profit	48.0	70.0	94.4	43.6	64.1	84.8	10.0%	9.3%	11.3%
Non-GAAP net profit	57.2	75.2	98.0	52.3	69.0	88.6	9.3%	9.0%	10.6%
Gross Margin	62.7%	62.5%	62.7%	65.7%	65.7%	65.6%	-3.0 ppt	-3.2 ppt	-2.9 ppt
Operating Margin	20.1%	23.6%	26.3%	21.0%	24.1%	26.1%	-0.8 ppt	-0.5 ppt	0.2 ppt
Non-GAAP net margin	24.0%	25.4%	27.3%	25.1%	26.0%	27.2%	-1.1 ppt	-0.6 ppt	0.0 ppt

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	59,492	93,950	130,558	234,881	292,687	354,718
Cost of goods sold	(19,279)	(31,718)	(31,462)	(71,999)	(91,884)	(112,570)
Gross profit	40,213	62,232	99,095	162,881	200,803	242,148
Operating expenses	(49,594)	(55,335)	(68,693)	(101,153)	(119,797)	(137,737)
Selling expense	(41,195)	(44,802)	(54,344)	(86,436)	(101,562)	(115,993)
Admin expense	(1,507)	(1,541)	(3,965)	(4,782)	(5,268)	(6,385)
R&D expense	(6,892)	(8,993)	(10,385)	(9,935)	(12,966)	(15,359)
Others	0	0	0	0	0	0
Operating profit	(9,380)	6,897	30,402	61,728	81,006	104,411
Interest income	2,455	3,062	3,997	7,472	9,178	10,831
Interest expense	(757)	(1,231)	(52)	(24)	(24)	(24)
Foreign exchange gain/loss	225	72	(150)	235	235	235
Others	194	656	2,221	2,624	2,624	2,624
Pre-tax profit	(7,263)	9,455	36,419	72,034	93,018	118,077
Income tax	0	(1,934)	(4,726)	(10,962)	(18,086)	(23,765)
Others	84	247	(155)	10	10	10
After tax profit	(7,180)	7,769	31,538	61,082	74,942	94,322
Minority interest	0	0	0	0	0	0
Net profit	(7,180)	7,769	31,538	61,082	74,942	94,322
Adjusted net profit	(2,965)	13,830	39,530	57,166	75,241	97,956
BALANCE SHEET						
	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	149,524	160,909	216,618	288,073	371,709	482,055
Cash & equivalents	22,421	6,427	34,326	103,401	185,748	294,714
Restricted cash	52,422	59,617	57,974	57,974	57,974	57,974
Account receivables	730	674	588	1,072	1,335	1,616
Prepayment	5,160	3,425	2,298	4,194	5,220	6,319
Other current assets	68,791	90,767	121,431	121,431	121,431	121,431
Non-current assets	9,385	20,301	20,502	24,517	24,800	24,765
PP&E	203	2,203	1,045	2,417	3,000	3,265
Right-of-use assets	630	939	1,416	1,416	1,416	1,416
Intangibles	1,277	701	134	2,777	2,477	2,177
Other non-current assets	7,275	16,457	17,907	17,907	17,907	17,907
Total assets	158,909	181,210	237,120	312,590	396,508	506,820
Current liabilities	83,882	93,730	116,889	132,754	141,483	153,890
Short-term borrowings	1,866	0	13,886	13,886	13,886	13,886
Account payables	53,834	62,510	63,317	67,826	68,049	72,442
Other current liabilities	16,735	16,707	18,124	25,425	29,296	32,860
Lease liabilities	253	427	602	602	602	602
Accrued expenses	11,193	14,086	20,961	25,015	29,651	34,100
Non-current liabilities	14,851	12,365	2,460	2,460	2,460	2,460
Convertible bonds	14,433	11,789	1,576	1,576	1,576	1,576
Other non-current liabilities	418	577	884	884	884	884
Total liabilities	98,733	106,095	119,349	135,214	143,943	156,350
Share capital	0	0	0	0	0	0
Capital surplus	86,699	95,341	99,255	99,255	99,255	99,255
Retained earnings	(25,475)	(17,707)	15,193	74,798	149,988	247,893
Other reserves	(1,048)	(2,520)	3,322	3,322	3,322	3,322
Total shareholders equity	60,176	75,115	117,771	177,376	252,566	350,470
Total equity and liabilities	158,909	181,210	237,120	312,590	396,508	506,820

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(7,263)	9,455	36,419	72,034	93,018	118,077
Depreciation & amortization	652	1,495	1,948	3,988	5,647	6,496
Tax paid	0	(1,934)	(4,726)	(10,962)	(18,086)	(23,765)
Change in working capital	31,050	13,562	9,886	13,484	7,441	11,027
Others	3,759	6,204	4,980	(4,705)	258	3,593
Net cash from operations	28,197	28,783	48,508	73,839	88,278	115,427
Investing						
Capital expenditure	(43)	(3,287)	(2,611)	(4,765)	(5,930)	(6,461)
Acquisition of subsidiaries/ investments	(93,160)	(130,268)	(28,596)	0	0	0
Net proceeds from disposal of short-term investments	55,083	97,547	0	0	0	0
Others	(238)	445	8,845	0	0	0
Net cash from investing	(38,358)	(35,562)	(22,362)	(4,765)	(5,930)	(6,461)
Financing						
Net borrowings	906	(1,875)	0	0	0	0
Proceeds from share issues	50,893	0	3,915	(0)	0	0
Share repurchases	0	0	0	0	0	0
Others	(0)	0	(3,905)	0	0	0
Net cash from financing	51,799	(1,875)	10	(0)	0	0
Net change in cash						
Cash at the beginning of the year	33,346	74,844	66,044	34,326	103,401	185,748
Exchange difference	(140)	(145)	100	0	0	0
Others	0	0	57,974	0	0	0
Cash at the end of the year	74,844	66,044	150,275	103,401	185,748	294,714
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	97.4%	57.9%	39.0%	79.9%	24.6%	21.2%
Gross profit	68.9%	54.8%	59.2%	64.4%	23.3%	20.6%
Operating profit	na	na	340.8%	103.0%	31.2%	28.9%
Net profit	na	na	306.0%	93.7%	22.7%	25.9%
Adj. net profit	na	na	185.8%	44.6%	31.6%	30.2%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	67.6%	66.2%	75.9%	69.3%	68.6%	68.3%
Operating margin	(15.8%)	7.3%	23.3%	26.3%	27.7%	29.4%
Adj. net profit margin	(5.0%)	14.7%	30.3%	24.3%	25.7%	27.6%
Return on equity (ROE)	(16.9%)	11.5%	32.7%	41.4%	34.9%	31.3%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Current ratio (x)	1.8	1.7	1.9	2.2	2.6	3.1
Receivable turnover days	5.5	2.7	1.8	1.3	1.5	1.5
Payable turnover days	(792.9)	(669.4)	(729.9)	(332.4)	(269.9)	(227.8)
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/E	na	123.0	15.4	21.2	17.3	13.7
P/E (diluted)	na	79.7	14.0	25.3	19.2	14.8
P/B	10.2	12.7	4.1	7.3	5.1	3.7

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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